

Statement for the Record of the
U.S. House Committee on Ways and Means
Subcommittee on Select Revenue Measures
Hearing on “Certain Expiring Tax Provisions”

April 26, 2012

Executive Summary

- The Biotechnology Industry Organization (BIO) represents more than 1,100 innovative biotechnology companies and institutions in all 50 states, including leading companies in the production of conventional and advanced biofuels, renewable chemicals and other sustainable energy and manufacturing solutions.
- Advanced biofuels, renewable chemicals, and biobased products have tremendous potential to address the nation’s economic, energy and national security challenges and are ready for commercial deployment, but simply cannot secure needed capital for first-of-a-kind biorefinery construction without government support.
- Congress should include the following important tax provisions in any energy tax extenders package to help renewable chemical and advanced biofuels developers access critical capital to move their projects forward:
 - Extend the cellulosic biofuels production tax credit and accelerated depreciation for cellulosic biofuel property for the longest feasible duration and extend eligibility to algae-based biofuels;
 - Preserve current incentives for alternative alcohol fuels; and
 - Fund and clarify eligibility of renewable chemicals and biobased products for the Internal Revenue Code Section 48C Advanced Manufacturing Credit.
- Supportive, stable federal policy is essential to ensuring that advanced and cellulosic biofuels developers can move forward on these first-of-a-kind commercial projects.
- Congress should consider enacting additional incentives to further help renewable chemical and advanced biofuels producers gain improved access capital.

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Introduction

Thank you for the opportunity to provide a written statement to the U.S. House Committee on Ways and Means Subcommittee on Select Revenue Measures (“the Subcommittee”) for the record of its April 26, 2012, hearing on “Certain Expiring Tax Provisions.”

BIO is the world’s largest biotechnology organization, with more than 1,100 members worldwide, including state and regional biotech associations, service providers to the industry and academic centers. BIO’s Industrial and Environmental Section represents over 85 leading companies in the production of conventional and advanced biofuels, renewable chemicals and other sustainable solutions to energy and climate change. BIO member companies apply industrial biotechnologies to help resolve important challenges in synthesizing new products, whole cell systems and other biologic processes to improve the range of manufacturing and chemical processes. BIO members include the leaders in developing new crop technologies for food, feed, fiber, and fuel.

BIO commends the Subcommittee for holding today’s hearing on expired and expiring tax provisions to determine how these incentives measure against key metrics such as cost, effectiveness, and job creation. History has demonstrated that tax incentives can be powerful policy mechanisms, particularly in the case of helping to achieve the nation’s energy policy objectives by promoting the deployment and utilization of new energy resources.

Sustained supportive tax policy is very important to emerging technologies that have not yet achieved commercial scale, and should be targeted at those technologies with the greatest potential to create the jobs, economic growth, energy security and environmental benefits we seek as a nation. Emerging technologies in advanced biofuels, renewable chemicals, and biobased products have tremendous potential to address the nation’s challenges and are ready for commercial deployment, but simply cannot secure needed capital for first-of-a-kind biorefinery construction without government support. We urge you to extend provisions that support the scale-up of these important technologies.

Background

Advanced biofuels, renewable chemicals and biobased products have great potential to significantly increase this nation's energy and national security, while creating thousands of solid, well-paying U.S. jobs (see **Appendix A** chart on "U.S. Jobs Associated with the Production of Advanced Biofuels and Renewable Chemicals"). In fact, today, the domestic biofuels industry is already creating jobs, helping to reduce our dependence on foreign oil and providing downward pressure on gas prices at the pump. It is now contributing more than 400,000 jobs and \$53 billion in new activity to the nation's economy. A recent report found that additional job creation from advanced biofuels production under the federal Renewable Fuel Standard (RFS) could reach 807,000 by 2022.¹ Advanced biofuels production under the RFS could further reduce U.S. petroleum imports by nearly \$70 billion by 2022.

A recent report estimates that the global sustainable chemical industry will grow to \$1 trillion, which provides an important opportunity for U.S. job and export growth. Currently, the industry is estimated to be only seven percent of its future projected size. U.S. companies traditionally make-up about 19 percent of the traditional global chemical industry. If U.S. companies capture the same percentage of the sustainable chemical industry as it grows to \$1 trillion, BIO anticipates 237,000 direct U.S. jobs and a trade surplus within the chemical sector. See attached **Appendix B** BIO white paper. Also, please see http://www.bio.org/sites/default/files/20100310_biobased_chemicals.pdf for a report on "Biobased Chemicals and Products: A New Driver of U.S. Economic Development and Green Jobs." The report provides further explanation and context showing that, through the development of the U.S. renewable chemicals and biobased products industries, the U.S. has the opportunity to recover and reclaim significant U.S. manufacturing jobs that have been lost to other nations in recent decades.

As the 2010 Quadrennial Defense Review notes, the Navy, other branches of the military, and the nation as a whole, face a significant national security threat from U.S. dependence on foreign sources of energy. This threat can be significantly reduced with an ample supply of U.S. advanced biofuels. Innovative advanced biofuels companies have made great strides in developing new technologies to produce next generation biofuels from a variety of feedstocks, and are poised to produce billions of gallons of advanced biofuels if project financing can be secured in a timely fashion (See for example (1) the following link to an article on "Current Status of Cellulosic Biofuel Production in the United States": <http://www.liebertonline.com/doi/abs/10.1089/ind.2011.7.365>, and (2) **Appendix C** chart of current and planned advanced biofuel projects). Supportive, stable federal policy—including tax incentives for biofuels and biobased products—is essential to ensuring that advanced biofuels developers can move forward on these first-of-a-kind commercial projects, which are a critical component of plans to meet the nation's energy independence and security needs. Many federal incentives vital to U.S. advanced biofuels development and commercialization have expired or are set to expire in the near-term.

¹ *U.S. Economic Impact of Advanced Biofuels Production: Perspectives to 2030*, bio-era, Feb. 2009, available at: <http://www.ascension-publishing.com/BIZ/BIO-econ-impact.pdf>

To accelerate large scale commercialization of advanced biofuels, renewable chemicals and biobased products, below please find an overview of provisions we believe are necessary to drive continued investment in the broadest possible set of emerging technologies.

Tax Extensions Necessary To Drive Investment in Advanced Biofuels, Renewable Chemicals and Biobased Products

The following existing tax incentives must be extended, with recommended clarifications, so that renewable chemical and advanced biofuels producers can access critical capital to move their projects forward and help the U.S. meet its energy independence, national security, and job creation needs.

- **Extend the Cellulosic Biofuel Production Tax Credit and Accelerated Depreciation for Cellulosic Biofuel Property:** BIO's member companies are working hard to commercialize cellulosic technologies and these companies are dependent on private investors to help fuel the innovation that will enable this commercialization effort. The cellulosic biofuels production tax credit and the accelerated depreciation for cellulosic biofuel property have the potential to unlock vital project financing. But because commercial biorefinery projects take an average of two or more years to complete, the December 31, 2012, expiration date prevents project developers from leveraging the value of these credits. Thus, even though the incentives are nominally effective through 2012, the credits have already effectively expired with regard to current facility development. **Extend the cellulosic biofuels production tax credit (PTC) and accelerated depreciation for cellulosic biofuel property for the maximum feasible duration.**
- **Algal Biofuels Tax Parity:** The Internal Revenue Code effectively impedes the commercialization of algae-based biofuels by providing a production tax credit and favorable depreciation to cellulosic biofuels developers, but not for algae-based fuel facilities. Algae-based fuels provide public benefits similar to those provided by cellulosic biofuels in terms of job creation, energy security, and environmental profile. As long as the law discriminates against algal fuels developers, it will continue to be extremely challenging for algae-based fuel start-up companies to attract the capital required to build the first commercial scale facilities. **Algae-based biofuels should be made eligible for the cellulosic biofuels PTC and accelerated depreciation.**
- **Preserve Current Incentives for Non-Ethanol Alcohol Fuels:** Under current law, the Internal Revenue Code provides income tax credits, or excise tax credits in lieu of income tax credits, for a number of alcohol fuels, including advanced non-ethanol alcohol fuels. It is important that these tax incentives for non-ethanol alcohol fuels be considered on their own merits. The tax credits for non-ethanol alcohol fuel are available only to biofuels that are poised to come onto the market but that need temporary policy support to help ensure their commercial viability in the short-term. Like the cellulosic biofuel production tax credit and accelerated depreciation rules, **the non-ethanol alcohol fuels credits should be extended as long as possible.** Moreover, because production levels of

these alternatives will be small in the next few years, the cost of extending the provision for a term of years is expected to be modest.

- **Fund and Clarify Eligibility of Renewable Chemicals and Biobased Products for Sec. 48C Advanced Manufacturing Credit:** S. 1764, the *Make It in America Tax Credit Act of 2011*, provides much needed additional funding to the Advanced Energy Manufacturing Tax Credit (Section 48C) and explicitly clarifies the eligibility of renewable chemicals and biobased product projects. Incentivizing investment in biorefineries provides the potential to create new markets for American products and jobs. Renewable chemicals and biobased products impact everyday products such as car parts to cleaning products, soaps, insulation materials, plastics, foams, fibers, fabrics, and impacting our economy. **Incorporate S. 1764 into any tax extenders package.**

The following incentives should also be enacted to further help renewable chemical and advanced biofuels producers gain access to critical capital to move their projects forward.

- **Provide an Investment Tax Credit (ITC) for Advanced Biofuel Biorefineries:** Capital costs for construction of advanced biofuel biorefineries are a substantial barrier to commercialization. **Congress should provide an investment tax credit option (available in lieu of production tax credits) for emerging advanced biofuel project developers** to help accelerate construction of advanced biofuel biorefineries and speed deployment of emerging advanced biofuel technologies.
- **Provide a Tax Credit for Production of Qualifying Renewable Chemicals:** Renewable chemicals and biobased plastics represent an important technology platform for reducing reliance on petroleum, creating green U.S. jobs, increasing energy security, and reducing greenhouse gas emissions. By providing a federal income tax credit for domestically produced renewable chemicals, Congress can create domestic jobs and other economic activity, and can help secure America's leadership in the important arena of green chemistry. Like current law renewable electricity production credits, the credits would be general business credits available for a limited period per facility. To truly achieve energy security, the U.S. must develop biorefineries that produce alternatives to all of the products made from each barrel of oil. Industrial biotechnology enables the production of renewable chemicals and biobased products from biomass, and the total displacement of fossil fuel products can be accelerated with a production tax credit.

The provisions above are essential ingredients in any effort to accelerate the commercialization of advanced biofuels, renewable chemicals and biobased products. We ask that you include these provisions in any tax extenders package.

Thank you.